



Agribusiness Monthly

June 2019

New Zealand



Commodity Outlook



Achieving proposed methane targets under the Zero Carbon Bill by 2050 will be a challenge for the New Zealand livestock sector and will require changes to future farming practices.



Rabobank expects NZ milk production to grow no more than 2% for the current 2018/19 season.



Rabobank expects tightening domestic supplies to put upward pressure on farmgate prices over the coming months, as production begins to wind down from its the seasonal peak.



Rabobank expects farmgate prices to continue to strengthen out to the end of the 2018/19 season (September).



Imports of French sparkling wine grow, along with those from South America and Europe. Rabobank expects this to continue across 2019.



The strong start to kiwifruit and apple export years is expected to continue into 2019, but is tempered by a watch on China's economic performance.



Our bearish view on global fertiliser markets is unchanged month-on-month, primarily based on expectations of continuing low global demand.



We lower our expectations further and now look for the NZ dollar to hit Usc 63 by May 2020.



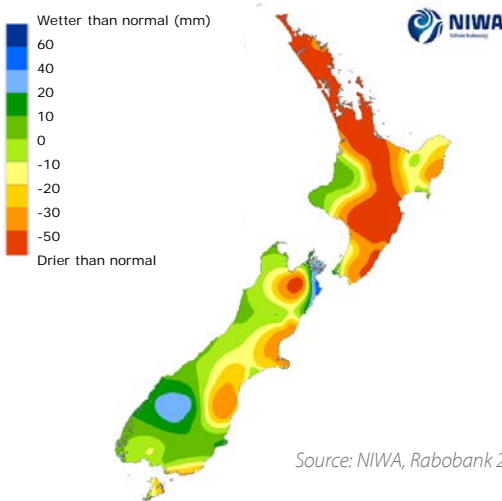
We expect Brent to hit USD 75/bbl in the weeks ahead, on rising seasonal demand and geopolitical tensions.

Climate



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Soil moisture anomaly (mm), 26 May 2019



NIWA notes above-average temperatures are forecast for the east coast of both Islands and the top of the North Island through to July 2019. All other New Zealand regions are forecast to experience above-average to average temperatures from May 2019 to July 2019.

Rainfall totals from May to July are equally likely to be normal or below-normal for all the North Island and the east of the South Island. The north of the South Island is likely to receive near-normal rainfall levels, while the west of the South Island is equally likely to receive normal or above-normal rainfall levels over the same period.

NIWA is forecasting an equal chance of near-normal or above-normal soil moisture levels for the West Coast of the South Island through to July. The top of the North Island is likely to have below-normal soil moisture, while an equal chance of near-normal or below-normal soil moisture levels is forecast for the remainder of the country from May to July.

What to watch

- ***Wetter for the west, warmer in the east.*** Higher-than-normal air pressure for the West Coast and the top of the North Island, combined with below-normal air pressure in the lower South Island, will result in more westerly winds than usual. NIWA notes that the mix of warmer sea temperatures in the Tasman Sea – in addition to more frequent westerly winds – could result in “several spells of unseasonable warmth” for the east coasts of New Zealand through to July. Frequent fronts for the west coasts of New Zealand are also possible over this period.

Bill Sets Ambitious Methane Targets

Achieving proposed methane targets under the government's recently announced Zero Carbon Bill by 2050 will be a challenge for the New Zealand livestock sector and will require changes to future farming practices. The bill sets targets for reducing New Zealand's greenhouse gas (GHG) emissions out to 2050. The government has chosen to introduce a split-gas target, treating the methane emissions generated by livestock separately from carbon dioxide and nitrous oxide emissions. The livestock sector had advocated for a split-gas approach in order to recognise the different impact methane has on the environment, given it remains in the atmosphere for a much shorter period of time than other GHG emissions.

The bill proposes reducing gross emissions of methane by 10% from 2017 levels by 2030, and 24% to 47% by 2050 (which, end of this scale, will depend on what actions our international partners are taking and the availability of emissions mitigating technology). ***These are absolute reduction targets and will not be able to be offset through the planting of trees.*** Carbon dioxide and nitrous oxide emissions will be required to reduce to net zero by 2050. Emitters of these GHGs who are unable to reduce their emissions to zero will be able to use activities such as tree-planting to offset any residue emissions.

There are currently no tools or practices available to farmers to significantly reduce their methane emissions, beyond reducing stock numbers. The prime minister's Chef Science Advisor has stated current good farming practices such as breeding and farm management might reduce methane emissions by an estimated 5% to 10%. Achieving deeper reduction will likely require productivity gains (while not increasing production), new technology, and land use change.



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Regulation

What to watch

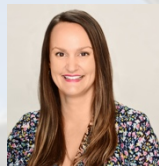
- ***Public submissions on the bill.*** Farmers and industry groups will have the opportunity to submit on the bill as it passes through the select committee process. B+LNZ and DairyNZ have both stated they believe the proposed methane targets are too ambitious. Both organisations will push for the range of reductions to be lowered to 10% to 22%, to align with recommendations made last year by the Parliamentary Commissioner for the Environment. B+LNZ will also be seeking changes to enable farmers to be able to use on-farm planting to offset emissions.

A Sharp End to the Season

New Zealand milk collections continue to trail off as the season draws to a close. Milk flows for April 2019 are behind 8%, compared to the same time last year. This pulls season-to-date milk collections lower, to 2.3%. ***Rabobank expects final full-season production to land between 1.5% and 2% once the final tallies are counted.***

Oceania commodity prices remain firm during a quieter trading period. Milk production seasonally is winding down quickly in both New Zealand and Australia, and markets are now fully focused on northern hemisphere milk production. EU milk production for March 2019 moved into positive territory for the first time since September 2018, lifting 1.1% YOY. US milk production growth has pulled back into modest growth mode, with April 2019 milk flows marginally higher, by just 0.1% YOY. This compares to a decline in production for March 2019 – the first in six years. ***With the northern hemisphere new season well under way, the spring peak has passed, with reports emerging of strong milk flows – providing procurement options.***

Fonterra has come out of the start blocks for the new 2019/20 season with a wide-ranging milk price forecast of NZD 6.25/kgMS to NZD 7.25/kgMS. At the same time, the coop chopped NZc 20 off of the previous top-end forecast range for the current 2018/19 season, to NZD 6.30/kgMS to NZD 6.40/kgMS. Based on our forecasts for global supply and demand across the coming 12-month period, ***Rabobank still anticipates a milk price of NZD 7.15/kgMS for the new 2019/20 season.***



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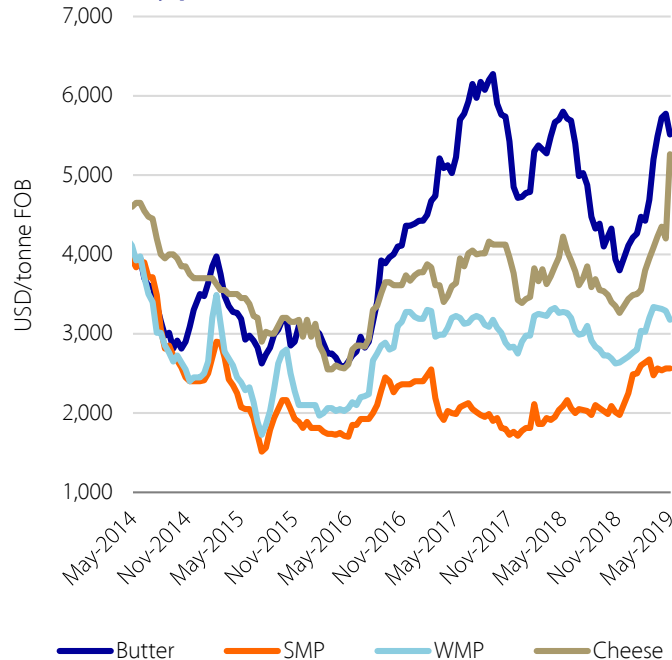
- ***A weaker Kiwi dollar.*** The NZD/USD cross continues to hover around mid-USc 60 levels. While helpful for exporters, the weaker currency will have a greater effect on the new season's milk price (2019/20) than the current season and further support our milk price forecast of NZD 7.15/kgMS.

EU Milk Flows Return to Growth



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Global dairy prices, 2014-2019



Source: USDA, Rabobank 2019

Production growth, key exporting regions

	<i>Latest month</i>	<i>Last three months</i>
EU	1.1% (Mar 19)	-0.1%
US	0.1% (Apr 19)	-0.1%
Australia	-13.7% (Mar 19)	-12.1%
NZ	2.3% (season to 30 Apr 2019)	

Source: Rabobank 2019



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Beef

Pricing to Lift as Supplies Slow

Rabobank expects tightening domestic supplies to put upward pressure on farmgate prices over the coming months, as production begins to wind down from its the seasonal peak.

Prices held steady through May, supported by solid export market returns and a weakening NZ dollar. With plentiful supplies of cattle available for slaughter, there was also no pressure on processors to move prices higher to secure supply, resulting in very little price movement over the month. As at the end of May, the North Island bull price is 1% higher MOM, averaging NZD 5.20/kg cwt, while the South Island bull price is down 1% MOM, to NZD 4.90/kg cwt. Prime cattle prices were also steady, with a North Island prime price of NZD 5.50/kg cwt (+1% MOM) and South Island prime price of NZD 5.05/kg cwt (+1% MOM).

Cattle supplies will begin to dry up in June, as the national dairy cow cull wraps up and farmers place cattle on winter feed. New Zealand's season-to-date cattle kill is similar to where it was heading into winter last year, sitting up 1.6% YOY as of 27 April. Given Rabobank expects the total kill for the 2018/19 season to be in line with last season's kill, cattle supplies through to the end of the season are likely to tighten along normal seasonal patterns. This will ensure there is an element of procurement pressure over the coming months.

US imported beef prices have come back slightly off their recent highs. This is normal at this time of year, given the increased availability of manufacturing beef supplies out of New Zealand, resulting from the national cow cull. Demand from China remains strong, with reduced availability of domestic protein sources due to the African swine fever outbreak forcing China to increase its reliance on protein imports.

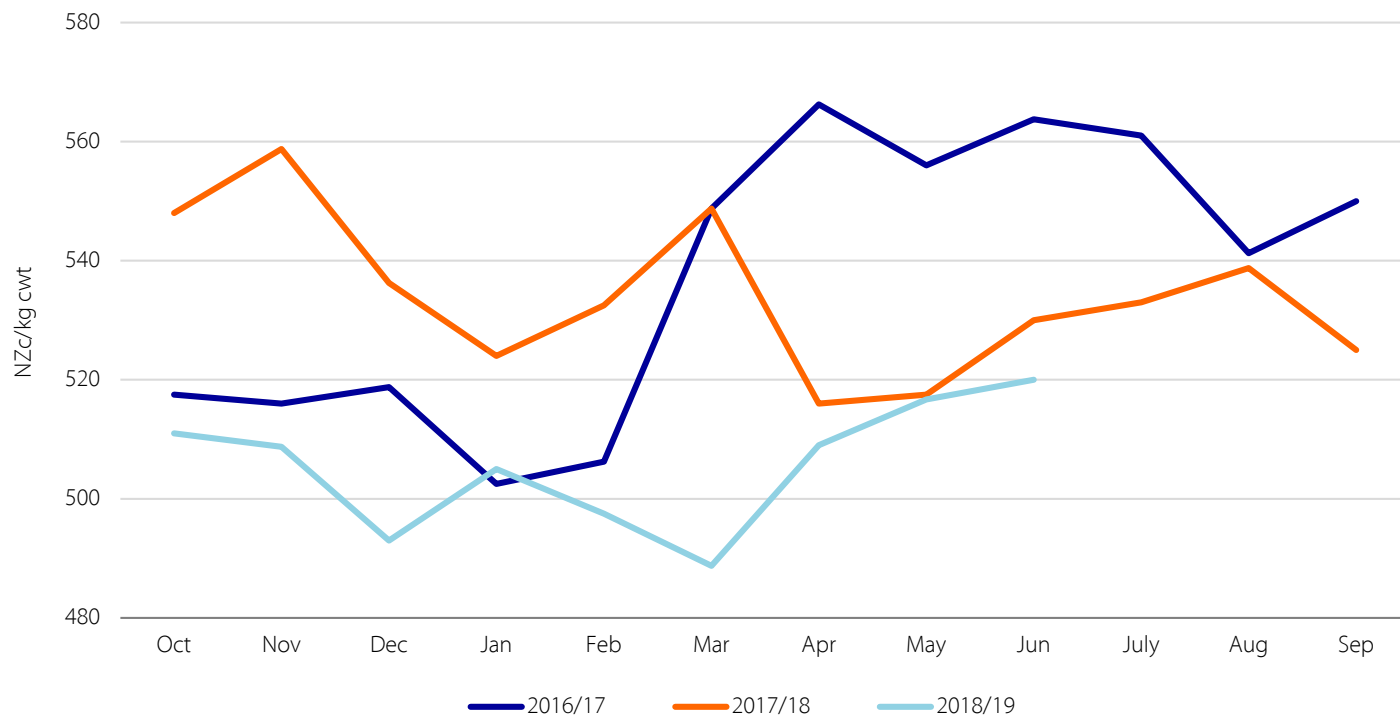
What to watch

- ***Soft store cattle market.*** Store cattle prices have been back this season, with poor autumn pasture growth impacting feed availability and, consequently, demand for stock. At the same time, large supplies of dairy beef have come online, putting buyers in a strong position when it comes to setting the sale price. This has seen prices for South Island Friesian bulls dropping to the lowest they have been in over five years.

North Island Bull Price



Rabobank



Source: NZX AgriHQ, Rabobank 2019

Further Price Gains Ahead

Rabobank expects farmgate prices to continue to strengthen out to the end of the 2018/19 season (September). International demand for New Zealand lamb remains strong, which will underpin prices over the coming months, as domestic supplies tighten. The timing and magnitude of pending price lifts will be determined by the flow of lambs to the processors.

There was a healthy jump in farmgate prices during May, as lamb production came off its seasonal peak, increasing procurement competition amongst processors. As of the end of May, the slaughter price in the North Island averaged NZD 7.55/kg cwt (3% higher MOM), while South Island lamb averaged NZD 7.15/kg cwt (5% higher MOM). ***Farmgate prices are now largely in line with where they were heading into winter last year, down just 1% YOY in both islands.***

New Zealand's lamb kill for the 2018/19 season is down 3% YOY (as of 27 April). While the lamb kill had been tracking at similar levels to last season a month earlier, limited supplies through April have now seen it fall behind. Beef+Lamb New Zealand forecast the total slaughter numbers for the 2018/19 season to be down 3%. This would indicate that supply availability for the remainder of the 2018/19 season will be at least as tight as it was from Jun-Sep last season, which corresponded to a healthy lift in farmgate prices over that period last year.

The demand outlook from New Zealand's key export markets remains positive. China and the US continue to lead the way, with demand and pricing levels holding strong. There has also been an improvement in sentiment from the UK and continental European markets, with the delay in the Brexit decision providing some short-term certainty for importers.



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Sheepmeat

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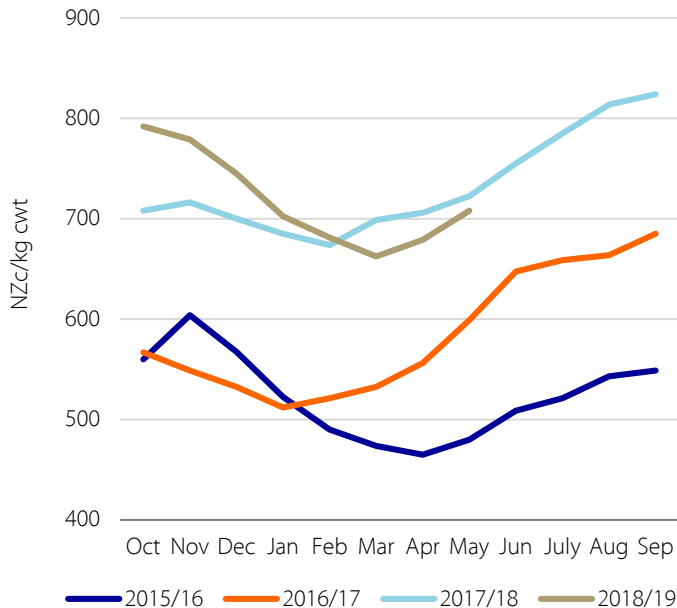
- ***Crossbred wool prices are improving.*** A weakening NZ dollar has helped to lift crossbred wool prices over the last month. Lamb's wool, in particular, has made some notable price gains since the start of the year, primarily driven by strong demand out of China. South Island lamb's wool prices across all classes are up on where they were a year ago. In the North Island, poor colour has been an issue which has had some negative impact on prices.

South Island Lamb Price and NZ Lamb Slaughter



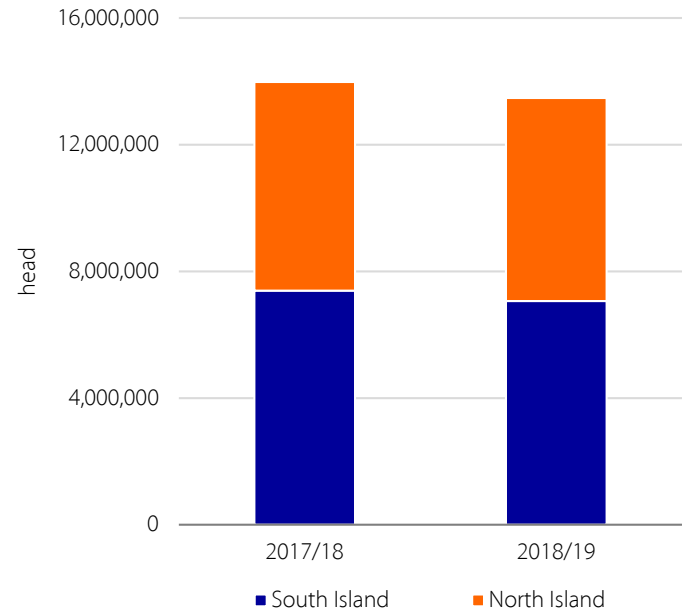
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South Island lamb price



Source: NZX AgriHQ, Rabobank 2019

New Zealand lamb slaughter (YTD – 27 April)



Source: NZ Meat Board, Rabobank 2019

Royals Not to Be Pipped by a Kiwi

The kiwifruit sector has reported another strong export performance, with all-time high exports of New Zealand-grown kiwifruit into key export markets helping to set a record for revenue. The new export season has also kicked off in a similar fashion for kiwifruit, as it has also for apple exports. Rabobank expects continued export growth for these sectors, but China's economic performance remains of key interest for the fortunes of fresh produce exporters across 2019.

Kiwifruit export values hit a record for 2018/19, with Zespri's reported operating revenue exceeding NZD 3bn. Exports of New Zealand-grown kiwifruit lifted by 35% in value, to NZD 2.2bn for the year, with export data showing volume up by 21% YOY, to 152m (3.6kg equivalent) trays. Exports for the new marketing year have shown a strong start, with volumes running well ahead of the same time in 2018, supported by an increase in Fob values. Strong import growth is occurring in the US, Australia, and Japan, but with a slower start to the season for Chinese imports of New Zealand-grown kiwifruit.

Not to be pipped by its larger cousin, the apple sector has also experienced a strong start to the 2019 season for exports. Export volumes and values have lifted year-on-year across the first quarter of 2019. China continues to favour New Zealand apples, and the year-on-year increase in volume and value across Q1 2019 has been strong, when both Hong Kong and Taiwan are included. Prices for Royal Gala in China have underpinned this start, with Royal Gala the largest share of Q1 export volumes.

This is against a backdrop of a slowing domestic economy in China and rising food price inflation. The performance of China's economy will continue to be of importance for exporters to monitor, if the consumer spending slowdown seen for manufactured goods flows into food consumption in 2019.



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Horticulture

What to watch

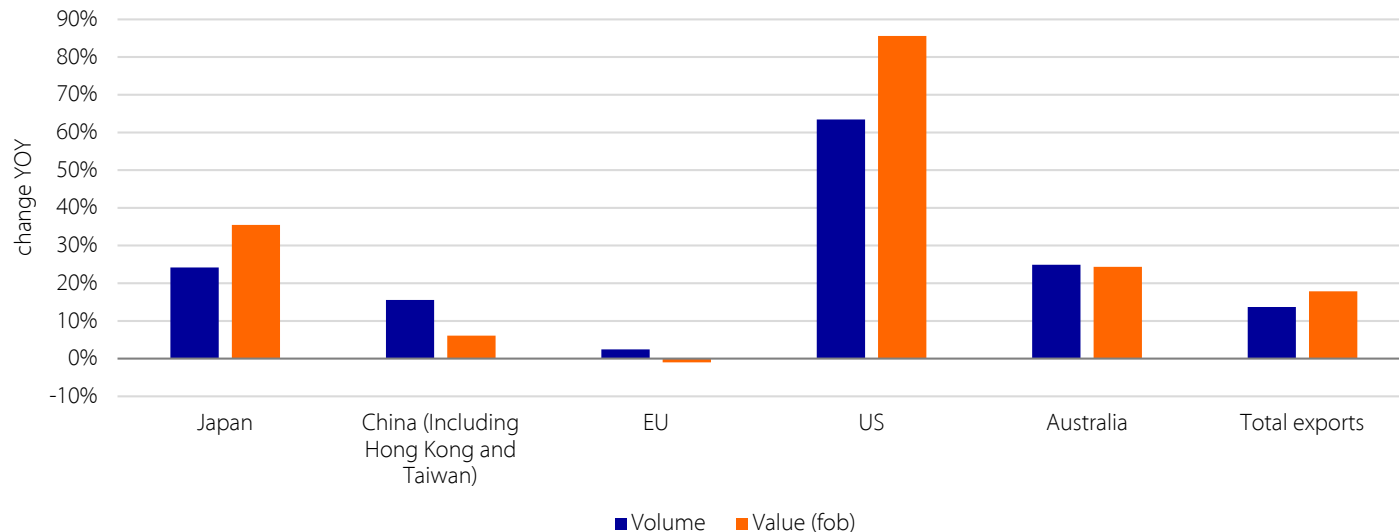
- **European avocado consumption growth.** The World Avocado Organization reports it expects European consumption per capita to match the US within eight years. This will be welcome news for New Zealand avocado exporters, as domestic production volumes increase and export strategies evolve to cater for this. Any increase in European demand will cater for larger volumes of fruit from South American exporters, who also compete with New Zealand across Asia.

Strong Start to 2019/20 Season Exports



Rabobank

Kiwifruit exports to key markets, April 2019 vs. April 2018



Source: Statistics NZ, Rabobank 2019

Exports of kiwifruit have made a strong start to the new marketing year across many of our key markets, with impressive YoY growth to the US. Gold kiwifruit accounted for 70% of total export value.

New Zealand Imports Sparkle

The overall market mix of imported wines into New Zealand remains unsurprisingly dominated by Australia, but the mix is changing. Imported French wine has increased market share in New Zealand, led by sparkling wines. The year-on-year increase of total NZ sparkling import volumes is ahead of still wine by almost two-thirds to March 2019. Further, imported wine from some of the larger world producers across Europe and South America has increased over the past 12 months, as world bulk wines remain in a surplus environment.

Imports of Australian wines are running 9% ahead of 2018 for value YOY to March 2019, with import volumes tracking to a similar level to that of the year ending June 2018. Bulk wine represents the majority of imports from Australia. Imports of French wine have seen a marked lift since 2009, with a tripling of imported volume and value for the period, led by sparkling wines. NZ French wine import CAGR is 11% for the ten-year period to June 2018, with YTD import growth of 7% YOY to March 2019.

Wines from other countries such as Chile, Portugal, and Spain have made inroads into the New Zealand import market in the past 12 months. Increased supply and competitive value propositions from these countries has facilitated imports, used for blending of both varietals and countries of origin for the domestic wine market in New Zealand. Rabobank expects this to continue across 2019.

On the export front, China has stepped up its imports of New Zealand sauvignon blanc, which is against the run of play from a market that has seen declining imports and one that favours red wines. Chinese imports of NZ wine appear to be running against the tide in China, where overall volumes of imported wines contracted in 2018 and are down by 24% YOY for the first quarter of 2019.



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Wine

What to watch

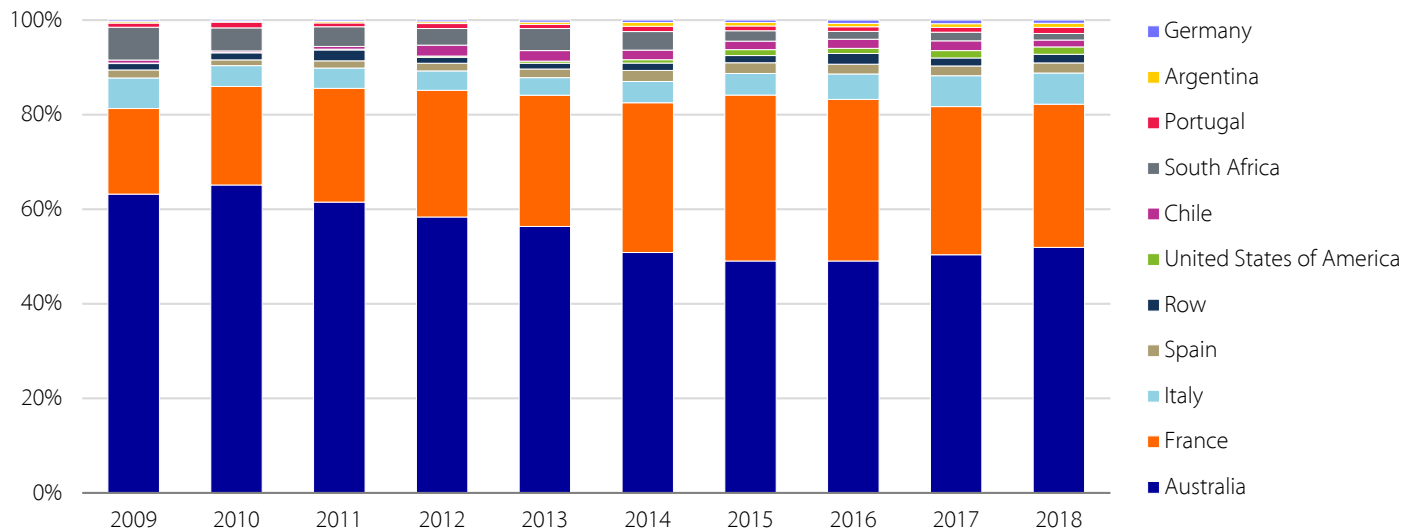
- **China import slowdown.** A continued economic slowdown in China could push further into wine consumption. As China is a market that traditionally favours red wines, any consumption reduction could translate into lower import volumes for white varietals if consumers align their behaviours to more traditional consumption patterns of favouring red wine.

French Wines Sparkle in the NZ Market



Rabobank

Market share for New Zealand wine import value (NZD cif)



Source: Statistics NZ, Rabobank 2019

Imports of Australian wine remain the dominant category for both volume and values. French wines have performed ahead of Australia for increasing share of wine imports in percentage terms.

Global demand to remain subdued

Our bearish view on global fertiliser markets is unchanged month-on-month, primarily based on expectations of continuing low global demand.

US planting of spring wheat, corn, and soy is progressing, albeit slowly due to poor weather. This month saw an escalation of the US-China trade war, which should have further incentivised US farmers to plant more corn and, in turn, buy more fertiliser.

A new tender for 778,000 tonnes of urea from India gave urea benchmarks a shot in the arm this month. Global benchmarks for urea (spot Middle East) increased 8% MOM, closing at USD 271/tonne during the last week of May. Global DAP prices were stable month-on-month.

It was also a relatively quiet month for local retail markets, all local benchmarks remained unchanged month-on-month. Local urea prices remained unchanged in February.



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Fertiliser

What to watch

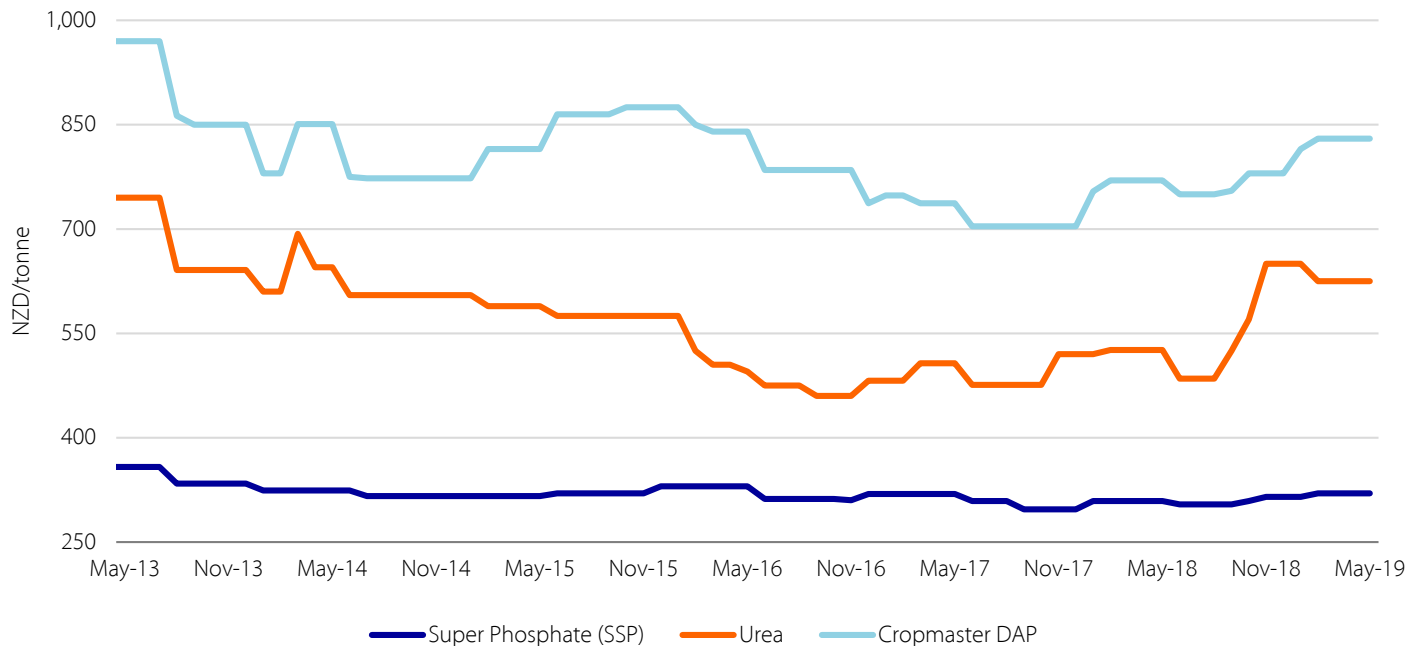
- **Peak demand ahead of the spring flush.** Soil across a majority of New Zealand's productive regions are drier than usual. If significant winter rains arrive, alongside forecast warmer temperatures, this will stimulate demand for nitrogen ahead of the spring flush. A healthy milk price this season will support purchases should weather conditions improve.

Local Prices Unchanged MOM



Rabobank

NZ reported retail prices



Source: Ravensdown, Rabobank 2019

NZD Falls (Yet) Again – And We Now Think the Bottom Will be Lower

We have revised down our forecasts for the NZ dollar and now expect it to reach USc 63 within 12 months, as monetary policy in the US and New Zealand diverges.

In the US, we expect monetary policy to ease, but not until 2020. On 1 May, the Fed kept the target range for the federal funds rate unchanged at 2.25% to 2.50%, stating that it didn't see a strong case for a rate move either way. We feel differently. With the yield curve still partially inverted, Rabobank continues to expect the economy to fall into recession in 2H 2020. Consequently, we think that the Fed will be forced to start cutting rates – but not until 2020.

The Reserve Bank of New Zealand (RBNZ) reduced its OCR by 25bps, to 1.5%, on 8 May, and we think there are more cuts to come. The RBNZ saw need for these cuts “to support the outlook for employment and inflation”, after this data disappointed recently. More importantly, RBNZ Governor Orr didn't rule out further cuts if they prove to be necessary: “Our forecast track is a slightly lower path than just one cut, but the uncertainties around that path are large.” Although the RBNZ's next move clearly remains data-dependent, these comments bolstered the market's expectations of another cut this year, and may put some further pressure on Kiwi rates and the New Zealand dollar.

At USc 65.5 on 27 May, the NZD was down almost another cent since late April.

Rabobank forecasts the NZD to hit USc 63 by May 2020.



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FX

What to watch

- ***The yield curve.*** It is important to distinguish between coincident, lagging, and leading indicators. The US economy may be growing at a rate of 3.2%, but this does not tell us anything about growth in the future. Inversions of the yield curve have a strong forecasting record when it comes to recessions 12 to 18 months in the future. The explanation for the current yield curve inversion at the short end is that investors expect short-term rates to fall in 2020. We take the inversion of the yield curve seriously and continue to expect the economy to fall into recession in 2H 2020.

NZD Falls Again, Bringing it Nearer Our 12 Month Forecast



NZ/US dollar Cross Rate



Source: RBNZ, Rabobank 2019



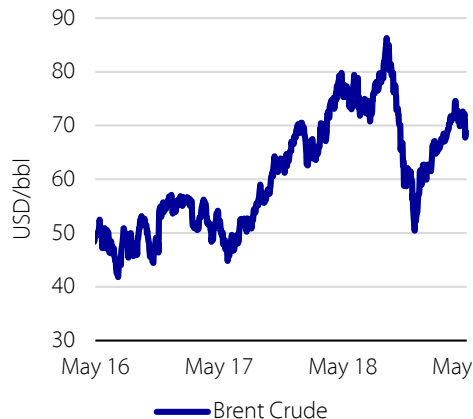
Higher Prices Ahead for Brent Crude

Despite finishing lower month-on-month, Rabobank maintains its outlook for Brent Crude to move toward USD 75/bbl in the weeks ahead, buoyed by a seasonal pick-up in demand and geopolitical tensions.

Negative macro fundamentals and unseasonal growth of US inventories pushed Brent Crude back below the USD 70/bbl mark this month. The escalation of the US-China trade war prompted a sell-down in 'risk assets' such as oil, while a strengthening US dollar also brought some selling pressure to the market.

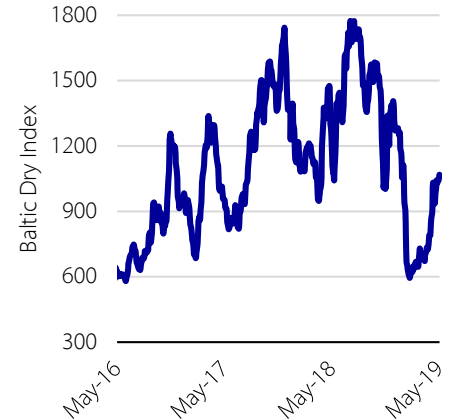
Ahead of the northern hemisphere summer, it was another move upward for ocean freight prices this month. The Baltic Dry Index finished up 26% MOM.

Brent Crude Oil, May 2016-May 2019



Source: AIP, Bloomberg, Rabobank 2019

Baltic Dry Index, May 2016-May 2019



Source: Bloomberg, Rabobank 2019

Agri Price Dashboard

As of 24/5/2019	Unit	MOM	Current	Last month	Last year
Grains & oilseeds					
CBOT wheat	USc/bushel	▲	490	435	530
CBOT soybean	USc/bushel	▼	830	854	1,036
CBOT corn	USc/bushel	▲	404	351	404
Australian ASX EC Wheat	AUD/tonne	▲	338	334	317
Non-GM Canola Newcastle	AUD/tonne	▼	574	583	558
Beef markets					
Eastern Young Cattle Indicator	AUc/kg cwt	•	469	469	472
Feeder Steer	AUc/kg lwt	▼	276	276	270
North Island Bull 300kg	NZc/kg cwt	▲	520	515	520
South Island Bull 300kg	NZc/kg cwt	▲	490	485	490
Sheepmeat markets					
Eastern States Trade Lamb Indicator	AUc/kg cwt	▲	829	713	597
North Island Lamb 17.5kg YX	NZc/kg cwt	▲	755	730	750
South Island Lamb 17.5kg YX	NZc/kg cwt	▲	715	680	725
Venison markets					
North Island Stag	NZc/kg cwt	▼	880	900	1,060
South Island Stag	NZc/kg cwt	▼	900	905	1,110
Dairy Markets					
Butter	USD/tonne FOB	▼	5,513	5,725	5,700
Skim Milk Powder	USD/tonne FOB	▲	2,563	2,538	2,038
Whole Milk Powder	USD/tonne FOB	▼	3,175	3,313	3,263
Cheddar	USD/tonne FOB	▲	5,263	4,350	3,963

Agri Price Dashboard

As of 24/5/2019	Unit	MOM	Current	Last month	Last year
Cotton markets					
Cotlook A Index	USc/lb	▼	79	88	94
ICE No.2 NY Futures (nearby contract)	USc/lb	▼	68	77	87
Sugar markets					
ICE Sugar No.11	USc/lb	▼	12	12	12
ICE Sugar No.11 (AUD)	AUD/tonne	▼	371	396	397
Wool markets					
Australian Eastern Market Indicator	AUc/kg	▼	1,833	1,943	1,983
Fertiliser					
Urea	USD/tonne FOB	▼	260	275	170
DAP	USD/tonne FOB	▼	365	383	407
Other					
Baltic Dry Index	1000=1985	▲	1,066	889	1,109
Brent Crude Oil	USD/bbl	▼	69	72	79
Economics/currency					
AUD	vs. USD	▼	0.693	0.704	0.758
NZD	vs. USD	▼	0.655	0.666	0.693
RBA Official Cash Rate	%	•	1.50	1.50	1.50
NZRB Official Cash Rate	%	▼	1.50	1.75	1.75

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